CANADIAN SUPERIOR OIL LTD.
ANNUAL REPORT 1971

CANADIAN SUPERIOR OIL LTD.

Head Office: Three Calgary Place, 355 Fourth Avenue S.W., Calgary 1, Alberta

Directors

E. R. BARNETT, Calgary, Alberta
D. L. BOHANNAN, Calgary, Alberta
H. J. CAINE, Calgary, Alberta
A. E. FELDMEYER, Calgary, Alberta
T. F. C. FROST, London, England
D. C. L. JONES, Calgary, Alberta
H. B. KECK, Los Angeles, California
W. M. KECK, Jr., Los Angeles, California
R. B. LAWSON, Calgary, Alberta
J. W. PYLE, Calgary, Alberta
G. H. STEER, Q.C., Edmonton, Alberta

Officers

A. E. FELDMEYER, President
E. R. BARNETT, Senior Vice-President
D. L. BOHANNAN, Vice-President
H. J. CAINE, Vice-President
R. B. LAWSON, Vice-President
D. C. L. JONES, Secretary and General Counsel
J. W. PYLE, Treasurer
E. J. BETHELL, Comptroller
T. J. EMERSON, Assistant Secretary
R. C. SCHRADER, Assistant Secretary
R. C. MACDONALD, Assistant Secretary

Auditors

PRICE WATERHOUSE & CO., Calgary, Alberta

Transfer Agents

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

THE BANK OF NEW YORK
New York, New York 10015

Registrars

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

FIRST NATIONAL CITY BANK
111 Wall Street
New York, New York 10015

Stock Exchange Listings

AMERICAN STOCK EXCHANGE
PACIFIC COAST STOCK EXCHANGE
TORONTO STOCK EXCHANGE

Highlights

	1971	1970
Gross Revenue	$42,058,850	$38,003,599
Working capital provided from operations – *before drilling and exploration expenditures*	$28,244,783	$22,876,939
Per share	$3.32	$2.69
Income before extraordinary item	$ 9,783,776	$ 2,893,603
Per share	$1.15	$ .34
Extraordinary item	–	$ 807,462
Per share	–	$ .10
Net Income	$ 9,783,776	$ 3,701,065
Per share	$1.15	$ .44
Working Capital at Year-End	$15,761,493	$17,770,050
Average Net Daily Sales:		
Crude Oil (Bbls.)	21,585	20,384
Condensate (Bbls.)	6,663	6,525
Propane and Butane (Bbls.)	4,220	3,847
Total Oil and Gas Liquids	32,468	30,756
Residue Gas (Mcf)	145,097	139,033
Sulphur (Long Tons)	449	651
Net Acreage in Canada	10,285,779	9,898,492
Net Acreage – Foreign	9,608,602	9,377,672

Annual Meeting

The Annual and Special General Meeting of shareholders will be held on Friday, May 5, 1972, at 10:00 a.m. in the Company's Board Room, Three Calgary Place, 355 Fourth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with the proxy statement and information circular and form of proxy, is being mailed with this report.

Contents

flood pressure maintenance scheme. Completion is scheduled for January 1, 1972 when increased oil production should provide some $600,000 additional annual revenue to the company.

The company's exploration program is currently being concentrated on Canada's continental shelf areas in the Western Arctic and Canada's East Coast where some 14,000 miles of marine seismic is expected to be completed this summer.

In the Beaufort Sea, a marine seismic program is currently underway on permits held off the west coast of Banks Island and to the southwest in Liverpool Bay.

On the Scotia Shelf where Canadian Superior is operator of a six-company group, marine seismic is being conducted in conjunction with gravity and magnetic surveys for a total estimated cost of $1.1 million. The company has a 10% interest in the group which will earn an approximate 30% interest in some one million acres of permits southwest and east of Sable Island.

A marine seismic survey is also underway on the Grand Banks, southeast off Newfoundland. This program is being carried out at the company's sole cost in order to complete a commitment to earn a 25% interest in 1.2 million acres.

Canadian Superior recently entered into a joint venture with another operator on a farmout involving a substantial marine seismic program to be conducted this summer on approximately 2.5 million acres off the east coast of Labrador northeast of the Strait of Belle Isle. The company will earn a 10% interest in the lands which may increase to 30% if options to drill wells are exercised prior to June next year.

In the Gulf of St. Lawrence, south of Anticosti Island, another seismic program is being carried out on offshore permits in which the company holds a 50% interest and may earn a 25% interest in a further 1.7 million acres by further work commitments.

During the second quarter a 710 mile marine reconnaissance seismic survey was completed offshore Malta where Canadian Superior holds a 21¼% interest with four other Calgary-based oil companies.

On August 20, the British Ministry of Trade and Commerce will be accepting cash bonus bids for licensing of 15 blocks of acreage in the United Kingdom sector of the North Sea. Other blocks will be awarded on the basis of work program bids. Your company will be participating with other operators at this sale.

A. E. FELDMEYER
President

August 6, 1971
Calgary, Alberta

Head Office: Three Calgary Place
355 Fourth Avenue S.W.
Calgary 1, Alberta

ALCRAFT • CALGARY

CANADIAN SUPERIOR OIL LTD.

Lead Corp. Report

INTERIM REPORT

FOR SIX MONTHS ENDED JUNE 30, 1971

CANADIAN SUPERIOR OIL LTD. and Subsidiary Companies

Consolidated Statement of Income

	Six Months Ended June 30 1971	1970
Income		
Gross operating income	$19,886,286	$18,149,376
Interest, dividends and other income	914,777	879,252
	20,801,063	19,028,628
Expenses		
Operating, administrative and general expenses	5,096,012	4,229,177
Interest on long term debt	44,096	161,741
Rents of undeveloped properties	1,108,932	1,000,832
Exploration expenses	2,351,291	2,816,111
Intangible drilling expenditures	1,587,051	3,932,492
Depreciation	2,426,420	2,443,210
Depletion	239,305	248,267
Amortization of exploration and preproduction expenditures	1,765,413	1,525,293
Leases abandoned	392,425	244,450
	15,010,945	16,601,573
Income before income taxes	5,790,118	2,427,055
Provision for income taxes		
Current	2,392,000	881,000
Deferred	313,000	236,000
	2,705,000	1,117,000
Net income for the period	$ 3,085,118	$ 1,310,055
Shares outstanding at June 30	8,503,596	8,501,516
	Per Share	
Funds provided from operations before drilling and exploration expenditures	$1.43	$1.50
Net income	.36	.15

Consoli

Source of Funds

Net income

Add charges to incor
use of funds inclu
depletion, amortiz
abandoned and de

Add drilling and expl

Funds provided fr
drilling and explo

Prepaid gas revenue

Miscellaneous

Use of Funds

Capital expenditures

Lease acquisition

Plant and equipm

Exploration expendit

Intangible drilling c

Total capital, dr
expenditures

Investment in other

Decrease in long ter

Miscellaneous

Increase in working ca

Operating Results

Crude oil and natural
production - net b

Natural gas sales - ne
daily

Sulphur production -

Sulphur sales - net

...ed Statement of Source ...nd Use of Funds

	Six Months Ended June 30 1971	1970
...	$ 3,085,118	$ 1,310,055
...ot requiring the ...depreciation, ..., leases ...d income taxes	5,136,563	4,697,220
	8,221,681	6,007,275
...on expenditures	3,938,342	6,748,603
...perations before ...n expenditures	12,160,023	12,755,878
...	1,169,644	11,340,000
...	157,166	144,540
	13,486,833	24,240,418
...	1,272,861	424,518
...	3,435,866	3,165,798
...	2,351,291	2,816,111
...	1,587,051	3,932,492
... and exploration ...	8,647,069	10,338,919
...panies	1,136,445	332,112
...bt	1,400,000	2,450,000
...	264,553	322,269
	11,448,067	13,443,300
...	$ 2,038,766	$10,797,118
...liquids ...s daily	32,173	30,191
...llion cubic feet ...	148	133
...long tons daily	856	915
...tons daily	367	865

CANADIAN SUPERIO

Consolidated Statement of

	Six M 19
Income	
Gross operating income	$19,8
Interest, dividends and other income	9
	20,8
Expenses	
Operating, administrative and general expenses	5,0
Interest on long term debt	4
Rents of undeveloped properties	1,1
Exploration expenses	2,3
Intangible drilling expenditures	1,5
Depreciation	2,4
Depletion	2
Amortization of exploration and preproduction expenditures	1,7
Leases abandoned	3
	15,01
Income before income taxes	5,7
Provision for income taxes	
Current	2,3
Deferred	3
	2,7
Net income for the period	$ 3,08
Shares outstanding at June 30	8,50

Funds provided from operations before drilling and exploration expenditures

Net income

To The Shareholders:

Net income for the six month period ended June 30, 1971 was $3,085,118 (36¢ per share) compared with $1,310,055 (15¢ per share) for the same period last year. Gross revenue from all sources increased 9% to $20,801,063. Cash flow before drilling and exploration expenditures amounted to $12,160,023 ($1.43 per share) compared with $12,755,878 ($1.50 per share) for the corresponding period last year. This decrease is primarily due to provision for substantially higher income taxes.

The balance of the bank loan was paid off in the second quarter. As at June 30, 1971, the company's working capital position amounted to $19.8 million, an increase of $2 million during the six month period.

Crude oil, condensate and natural gas liquids production increased 6.6% to 32,173 barrels daily. Natural gas sales increased 11.7% to 148 million cubic feet daily. Sulphur sales averaged 367 long tons daily during the first six months and represented approximately 43% of production. Revenue from this source declined significantly as a result of lower sales and prices.

Drilling and exploration expenditures charged to income amounted to $3,938,342 and represented a decrease of 42% from those incurred during the same period last year. The company participated in the drilling of 51 exploratory and development wells of which 15 were productive of oil or gas and 36 were abandoned. Twenty-three wells were drilled at no cost to the company.

Drilling commenced during the first quarter of 1971 on Block 296, Eugene Island area, offshore Louisiana where Canadian Superior holds a 5% interest acquired in the December 1970 Federal lease sale. The well encountered three gas-bearing sands with a total of 138 feet of net pay. A 24-well development platform is being fabricated and installation should be completed and ready for drilling early next year.

The company has received a gas prepayment of $1,169,644 from Michigan Wisconsin Pipe Line Company in respect of its interest in the Eugene Island and South Marsh Island blocks.

The construction of the Lone Pine Creek South gas processing plant in south-central Alberta is proceeding on schedule for completion in November 1971. Canadian Superior as operator will have an approximate 60% interest in daily average production of 22 million cubic feet of residue gas, 564 barrels of condensate and 133 tons of sulphur.

The Energy Resources Conservation Board recently approved the company's application at Harmattan Elkton Unit No. 1 for partial gas sales of 40 million cubic feet per day as well as increased pressure maintenance oil production allowable. A contract has been let to a major engineering-construction contractor for the design of the partial gas sales plant which is tentatively scheduled for completion January 1, 1973. Field construction has begun on the oil field gas conservation and water

Directors' Report

To The Shareholders:

Financial

The company's income from all sources reached a new high in 1971, totalling \$42.1 million. This represented a 10.7% increase over the previous year. Working capital provided from operations (cash flow) before drilling and exploration expenditures amounted to \$28.2 million, or \$3.32 per share, compared with \$22.9 million, or \$2.69 per share in 1970.

Net income amounted to \$9.8 million, or \$1.15 per share compared with \$3.7 million (including a non-recurring gain of \$807,000), or 44¢ per share in 1970.

Both cash flow and net income for 1971 were enhanced by approximately 50¢ per share through a reduction in income taxes, brought about primarily by the purchase of a sub-lease of producing properties in Alberta in December, 1971.

Capital expenditures for lease acquisitions, gas plants, lease and well equipment and other fixed assets totalled \$13.1 million compared to \$11.2 million in the prior year.

Production and Revenues

Production of crude oil and other liquids increased 5.6% to an average of 32,468 barrels daily. Revenue from this source amounted to \$30.7 million, a gain of 14.7%. This was in part a reflection of the 25¢ per barrel crude oil price increase in December, 1970, and higher prices for condensate, propane and butane. During the month of January, 1972, oil and gas liquids production reached 36,500 barrels per day.

Natural gas sales averaged 145 million cubic feet per day, an increase of 4.4%. Revenues increased by 8.4% to \$8.7 million. During the month of January, 1972, gas sales reached a record average of 182 million cubic feet daily.

Sulphur sales were again disappointing, amounting to only 53% of production. Revenues from this source dropped 52% and represented only 2% of the company's combined operating revenues. The continued erosion of sulphur prices and the longer term outlook for this product led to a decision to write off, against income, all bulk sulphur surplus to one year's estimated sales. The result is shown in the consolidated statement of income under "Sulphur inventory adjustment", and amounts to \$1,344,654.

Exploration

Most of the company's Canadian geophysical exploration activity was directed to the frontier areas, primarily in the Beaufort Sea and offshore East Coast; as well as along the Foothills of the Rocky Mountains of Alberta, northeastern British Columbia and the Northwest Territories. Total geological and geophysical expenditures in Canada amounted to \$3.8 million during 1971; down slightly from the previous year. Outside of Canada, the company is examining a number of areas where geological conditions are promising.

Your company participated, directly or indirectly, in the drilling of 115 wells in Canada, 6 in offshore Texas and Louisiana, one in the Arafura Sea in Indonesia, and one well in the Netherlands sector of the North Sea. Forty-six wells were productive of oil or gas, and 77 were abandoned. Sixty-five of these wells were drilled under farmout agreements and involved little or no cash outlay by the company. Total drillings costs in Canada amounted to \$2.4 million; compared with \$5.2 million in the prior year.

Employees

The company's staff totalled 385 employees including 14 in Sydney, Australia. It is a source of pleasure and pride to commend the contributions and achievements of our department heads, supervisors and staff in all areas of our Company's activities.

Outlook

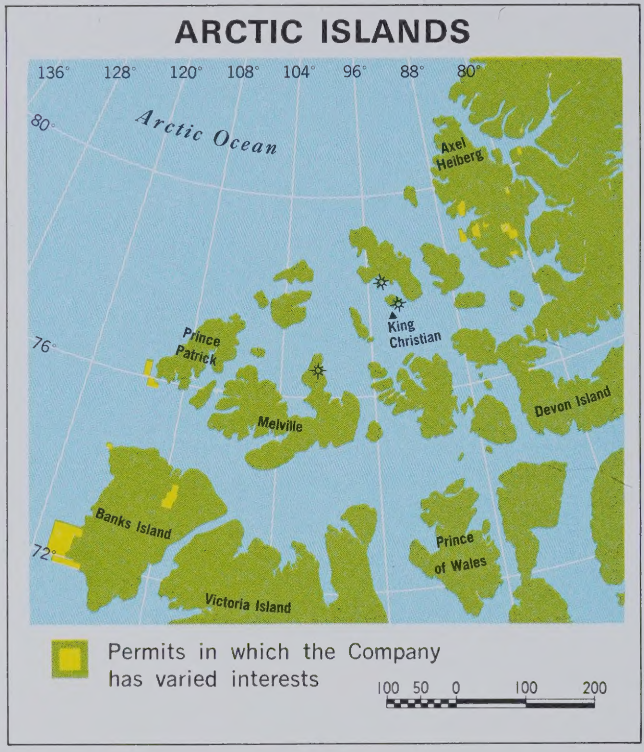
The increase of 25¢ per barrel in the price of crude oil in Canada in December, 1970, was the first general increase in over eight years. As the North American energy demand increases, it becomes imperative that oil and gas prices reflect their values vis-a-vis other forms of energy. Only more realistic price relationships can provide the necessary exploration incentives.

The pricing of Alberta natural gas at source wells and plants is currently the subject of an extensive hearing before the Alberta Energy Resources Conservation Board. Industry associations intend to review all pertinent factors which will indicate the need for more realistic pricing of the premium qualities of natural gas as an energy source.

ON BEHALF OF THE BOARD,

G. E. Feltameyer

March 10, 1972 President

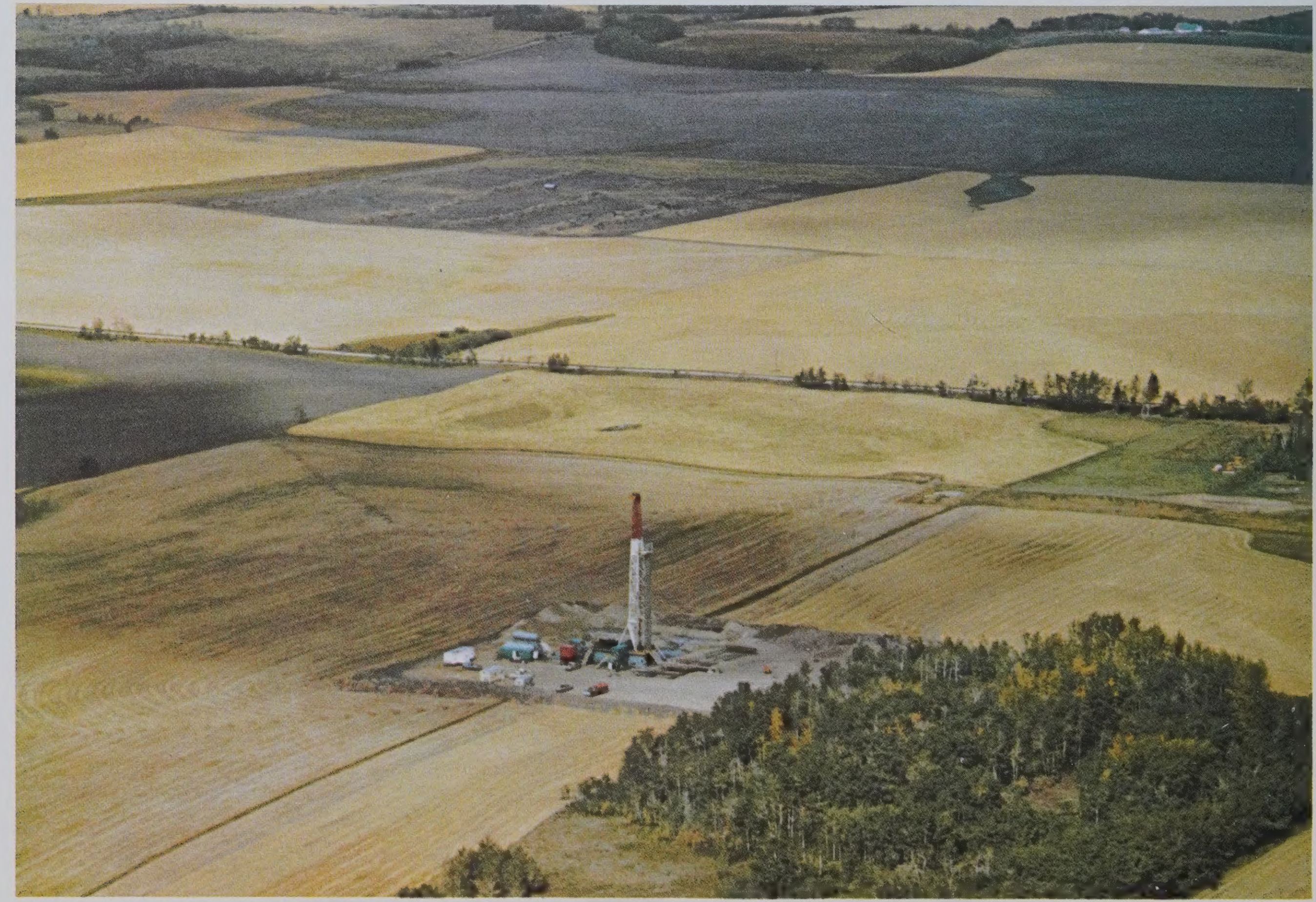


Exploration

Oil and gas development in the Prairie Provinces is approaching maturity and it is inevitable that industry turn to the frontier areas of Canada in search of the reserves needed to supply the insatiable demands for energy. The strong upward pressure on prices in other producing areas of the world will eventually compensate operators for the higher risks and costs of exploration and development in such areas as the Arctic Islands and the offshore Continental Shelf.

Your company is an active participant in the exploration of Canadian frontier areas. So far, it has concentrated its efforts in the Beaufort Sea, on Axel Heiberg Island in the northeastern Arctic, and the Continental Shelf off Canada's east coast. In some of these areas it is earning an interest in acreage by conducting seismic and other operations and thus meeting the monetary obligations of the original permit holders. Because of the significant costs involved, these exploratory ven-

Wildcat drilling location in southern Alberta.



tures are being conducted jointly with several other companies.

Despite the shift of emphasis to these frontier areas, the Western Canadian Basin continues to offer exploration opportunities. Your company holds a strong land position in the western provinces and is continuing to add to its holdings in favourable areas. During 1971 your company's activities in Western Canada were concentrated mainly in the deeper part of the sedimentary basin along the foothills, believed to be the most promising area for large gas reserves in western Alberta and northeastern British Columbia.

Canadian Arctic

During the past year Canadian Superior participated in geophysical operations in the Beaufort Sea area where a total of 1,100 miles of marine seismic survey were conducted. Acreage at Nicholson Point, in which your company has an interest, is being evaluated in the light of discoveries on Tuktoyaktuk Peninsula. On Axel Heiberg Island, an interest in 48,700 acres of permits was recently acquired to supplement permits already held by the company. Surface geological studies were conducted in 1971 and are to be followed by geophysical surveys in selected areas during the coming summer.

Your company has joined with eight other companies in pooling financial and technical resources to plan a drilling program on certain Federal permits in the Beaufort Sea area.

Mackenzie Plain

Your company holds a 25% interest in approximately 525,000 acres of permits in the lower Mackenzie valley, an area of increasing activity, where a number of wells are being drilled during the current winter. One of the wells (Pacific et al Peel YT F-37) is being drilled on a farmout from Canadian Superior and others. It is located about 35 miles south of Fort McPherson. Seismic programs are under way on other parts of our acreage in the area.

MACKENZIE DELTA AREA

Offshore East Coast

The reported discovery of oil and gas on Sable Island has focused the interest of the industry on the continental shelf off Nova Scotia. Your Company is operator for a six-company group which will earn varying interests in more than 1.7 million acres by conducting an extensive geophysical program on the Scotia Shelf. The initial stage, completed during the past year, included 4,100 miles of seismic and 4,200 miles of seaborne magnetic and gravity surveys. Another 2,900 miles of seismic data was acquired from other operators. The program will be continued in 1972.

Elsewhere offshore, your company earned a 25% interest in 1.2 million acres on the Grand Banks of Newfoundland by conducting a 1,500 mile seismic survey. Another 5,000 miles of seismic lines in this area were acquired from other operators. Off the east coast of Labrador, the company completed 1,700 miles of marine seismic to earn a 10% interest in 2.5 million acres.

In the Gulf of St. Lawrence, south of Anticosti Island, your company also participated in a seismic program which earned a 25% interest in approximately 1.1 million acres.

Foothills of the Rocky Mountains

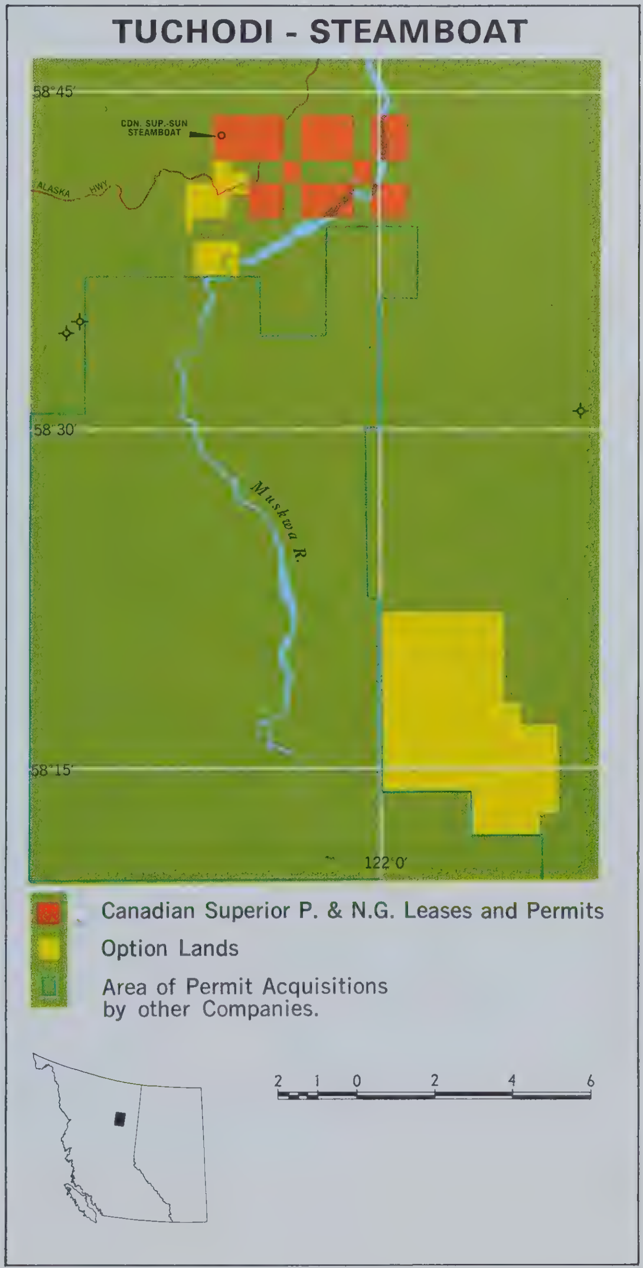
The most significant gas discoveries in the past few years in the prairie provinces have been made in deeply buried Devonian reservoirs along the foothills. Your company has a substantial acreage representation along this active exploration trend and has been involved in a widespread series of seismic programs in and along this foothills belt from southern Alberta to northeast British Columbia. They include Devonian prospects in the Cochrane and Pinto Creek areas of Alberta; and Murray River, Sukunka, Wapiti River, Septimus, Steamboat and North Steamboat areas of British Columbia.

Current drilling activity includes the Bentz well, 65 miles northwest of Calgary, Alberta, an 11,000 foot test at Steamboat, and a 12,000 foot Devonian test at Septimus in northeastern British Columbia.

Other Areas

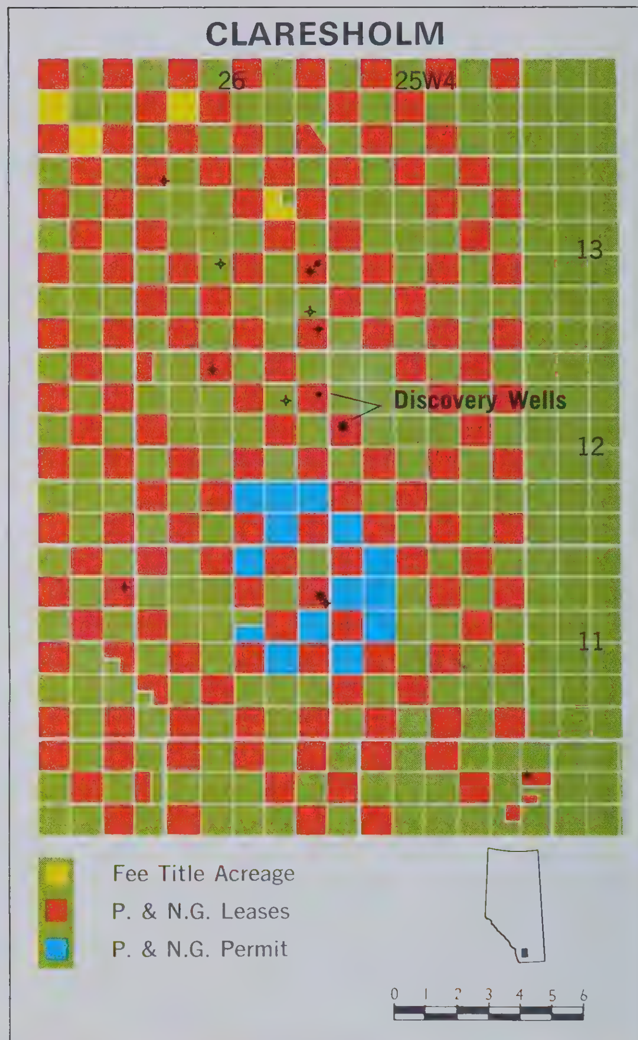
Your company has varying interests in the new Corbett Viking gas field in central Alberta. There are six wells in the field so far, and drilling is continuing. During the past year, gas discoveries were made on acreage in which your company has an interest in the following areas: Buick Creek in northeastern British Columbia, and in Alberta: Eyremore, Bittern Lake, Ferrybank, Edwand, Ante Creek, Guy South, Greencourt and Bistcho.

Selective land acquisitions during the past year include petroleum and natural gas reservations at Chinchaga, Bistcho Lake and Vega in northern Alberta, and permits at Muriel Lake South and Saddle Lake in central Alberta.



An oil discovery was made at Claresholm in southern Alberta on company acreage farmed out to Clark Canadian Exploration Company. The discovery was made late in the year, and step-out and development drilling will continue in 1972.

In addition to the Claresholm oil well, the company has an interest in a Middle Devonian Gilwood Sand oil discovery at Nipisi, Alberta. A step-out well from the Harmattan East field was successful and there are plans for more drilling in that area, including two Devonian tests. Three step-outs drilled on company acreage at no cost to the company were unsuccessful. Activity in the Meekwap area, where your company has an interest, is expected to continue in the coming year.



Foreign

Your company believes that it is essential to our growth to continue the judicious acquisition of land holdings in foreign areas where the geology and economics are promising. Consequently, we are examining the potential of a number of sedimentary basins both onshore and offshore in various countries.

Mediterranean Sea

East of Malta, your company has a 21.25% interest in 426,000 acres. A marine seismic survey of 710 miles was completed and subsequently a well was spudded on January 5, 1972, to test all horizons down to 10,000 feet.

Off the northeast coast of Tunisia, we acquired a 15% interest in two spreads of acreage—the Tabarka-Bizerte block covering 1,020,000 acres, and the Cape Bon-Gulf of Hammamet block covering 1,270,000 acres. Marine seismic surveys of 750 miles and 1,015 miles respectively were completed on these prospects and further exploration will depend on the results of an evaluation of this work.

South of the west end of the island of Sicily it is anticipated that a 25% interest in 78,000 acres will be acquired on the Pantelleria shelf. An exploration program is planned for this area in 1972.

Applications for additional acreage on the Italian continental shelf are pending.

Australia

Oil exploration activity over the 44,000 square miles of permits in the western and northern portions of the Australian continental shelf comprised 1,400 miles of seismic. Drilling will re-start in 1972 with a two-mile step-out well to the Uramu gas discovery in the Gulf of Papua in which Canadian Superior's interest is 15%. A well is also planned in the Gulf of Bonaparte on the northwest shelf in which our equity is 13%. One, or possibly two wells may be drilled on a farmout commitment on the Carnarvon prospect on the southwest shelf area.

Southeast Asia

Canadian Superior has a 10% interest in a 94,000 square mile concession in the Arafura Sea area of the territorial waters of Indonesia. During 1971 we participated in 1,000 miles of marine seismic and drilled a third well in this area. The well was abandoned, there being no significant hydrocarbon shows. The 1972 program has been approved and will include one offshore 16,000 foot well and seismic and geological investigation of the land portion of this concession.

TUNISIA - SICILY - MALTA

North Sea

During the past year, one exploratory well in which the company had a 3⅓% interest was drilled in the Netherlands sector of the North Sea. The well was dry and abandoned.

The United Kingdom Arpet Group, of which Canadian Superior is a member, was successful in obtaining seven blocks in the recent United Kingdom round of awards. These petroleum production licences are shown on the accompanying map. Five of these blocks are located in the North Sea proper and Canadian Superior's interest is 8%. Two of the blocks were issued jointly to the Arpet and another operating group; one in the Celtic Sea and another in the North Scottish waters. Canadian Superior's interest is 4% in these latter two blocks. Detailed geophysical work will be required to evaluate the blocks for drilling prospects. It is not anticipated that exploratory drilling will get under way until 1973.

Geophysical work was carried out in selected areas of the United Kingdom, Netherlands and Norwegian waters in order to evaluate open acreage available for future grants by the respective governments.

NORTH SEA AREA

Oil and Gas Acreage Holdings

At December 31, 1971

	Gross		Net	
CANADA				
Producing leases		607,123		317,395
Exploratory acreage				
Western Canada				
Leases	3,153,523		2,113,021	
Reservations and permits	2,163,253		1,520,707	
Fee title acreage	1,310,278	6,627,054	1,309,602	4,943,330
Yukon and Northwest Territories		2,178,632		942,139
Beaufort Sea		3,812,249		1,657,956
Mackenzie Delta – onshore		624,549		279,224
Arctic Islands		1,237,046		618,532
East Coast				
Nova Scotia shelf	2,186,542		456,234	
Labrador shelf	2,471,595		247,159	
Grand Banks	1,463,756		537,772	
Gulf of St. Lawrence	1,144,147	7,266,040	286,038	1,527,203
Total Canada		22,352,693		10,285,779
FOREIGN				
Producing leases				
United Kingdom		242,564		6,971
Exploratory acreage				
Indonesia – Arafura Sea		59,896,973		5,989,697
Australia		28,203,410		3,164,729
Tunisia		2,289,576		343,437
Malta		426,218		90,571
Netherlands		305,341		10,177
U.S.A.		47,998		3,020
Total Foreign		91,412,080		9,608,602
TOTAL ACREAGE		113,764,773		19,894,381

Producing and Marketing

Total crude oil and natural gas liquids production during 1971 reached an all-time high of 11,851,000 barrels, for a daily average of 32,468 barrels and an increase of 5.6% over 1970. Revenue from this source increased 14.7% to $30,715,000.

Crude oil production averaged 21,585 barrels per day, 6% over the previous year. Revenue amounted to $21,800,000, an increase of 16.5%, and represents 54% of the company's total gross operating revenue. Condensate production averaged 6,663 barrels daily, with revenue amounting to $6,900,000 and accounting for 17% of the company's gross operating income. The increase in revenues from these two liquid hydrocarbons is partly attributable to a modest increase in production, but mainly reflects a crude oil price increase of 25¢ a barrel effective in December, 1970.

Propane and butane sales increased 9.7% and averaged 4,220 barrels per day. Higher prices for these products increased revenue by 30% to a total of $2,016,000. The majority of these products were shipped via the company's tank car fleet to customers in Washington, Oregon, California, Midwestern United States and New England.

The jointly-owned Hardisty Storage underground facilities for propane and butane continue to assist your company in its marketing efforts by levelling summer seasonal imbalances and winter peak demands.

Gas sales during 1971 averaged 145.1 million cubic feet daily, an increase of 4.4%, while revenues increased by 8.4% to $8,688,000. This represents 22% of the company's total gross operating income. The average price in 1971 was 16.4¢ per thousand cubic feet, up from 15.8¢ in 1970. This increase is partly due to escalation provisions of gas sales contracts and to some extent from new gas coming on stream at higher-than-average contract prices. Approximately 25% of the company's contracted natural gas reserves are subject to price redetermination during the next three years.

Sulphur production during the year amounted to 845 long tons per day, down from 926 long tons per day in 1970. Sales represented 53% of production, or an average of 449 long tons daily, down from 651 long tons daily in the previous year. Prices continued to erode as a consequence of the serious oversupply situation and revenues were down by 52% to $840,000.

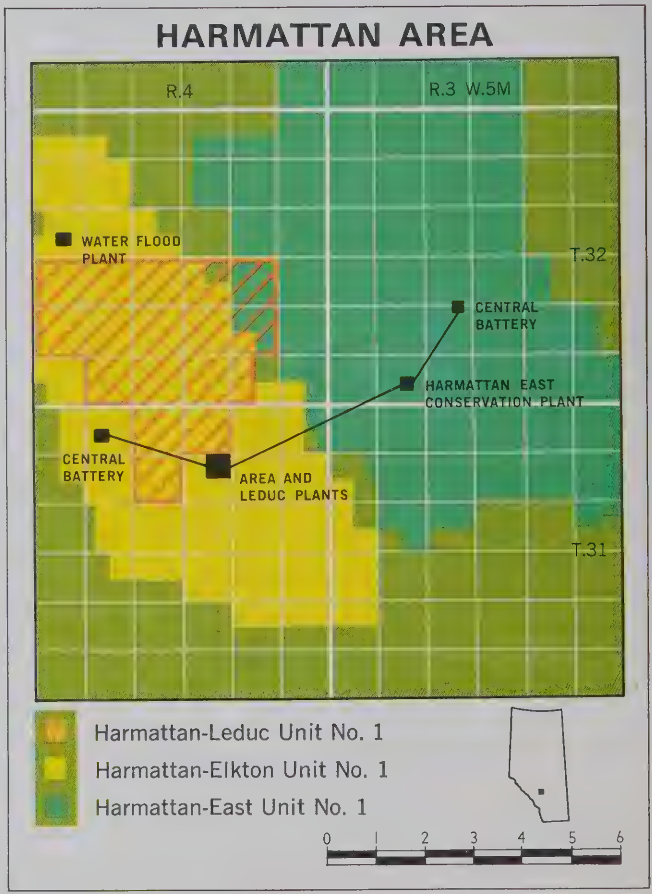
Last year your company joined Cansulex Limited, an offshore marketing organization comprising 23 companies having a combined interest in 39 Canadian sulphur producing plants. This association of producers owns or controls a total of some four million tons of Canadian sulphur production and has strategic inventories in Canada and Europe available for offshore customers. Canadian Superior independently markets sulphur in Canada and the United States, most of which is delivered to its customers in molten form by its tank car fleet.

Operations

The company holds participating interests equivalent to 508 net oil wells and 104 net gas wells in Western Canada. As indicated in the accompanying table, varying interests are owned in forty gas processing plants which produce residue gas, condensate, propane, butane and sulphur.

Harmattan Area

The accompanying map of the Harmattan area illustrates the three major units in which the company has an approximate overall 40% interest. Located 55 miles northwest of Calgary, it represents the company's most significant revenue-producing area and accounted for $8 million gross operating income in 1971.



Gas Processing Plants

in which Canadian Superior Oil Ltd. has a working interest

Plant Location	Company Interest (%)	Daily Plant Design Capacities: Residue Gas (MMcf/D)	Plant Liquids (Bbl/D)	Sulphur Prod. (LT/D)
Bellis*	8.4	16	—	—
Berrymoor	8.3	10	100	—
Calgary-Crossfield	1.9	220	7,500	2,100
Caroline	8.3	38	2,000	12
Carstairs-Crossfield	13.3	280	18,600	50
Corbett Creek*	10.7	10	—	—
East Crossfield—(D-1)	30.9	57	500	1,600
East Crossfield—(Elkton)	5.0	55	2,250	—
Edson	0.7	274	2,900	225
Ferrier	42.5	85	9,500	—
Flat Lake	12.6	24	—	—
Ghost Pine	0.7	85	680	—
Gilby 1	36.5	9	130	—
Gilby 2	7.8	52	2,250	—
Gilby 3*	0.6	25	200	—
Harmattan Area*	38.0	150	18,800	—
Harmattan Leduc	43.9	15	—	800
Innisfail	33.2	10	400	115
Joffre D-2*	8.4	4	650	21
Kaybob Notikewin	3.5	75	400	—
Kaybob South 1	5.9	120	20,210	1,000
Kaybob South 2	6.5	120	20,210	1,000
Kaybob South 3	0.1	284	50,720	2,850
Lobstick Glauconite	1.3	22	150	—
Lone Pine Creek D-3*	0.2	13	435	60
Lone Pine Creek South	66.7	21	600	140
Marten Hills	1.1	16	—	—
Minnehik Buck Lake	8.0	100	1,600	32
Nevis	4.9	68	1,300	200
Paddle River	0.5	28	120	—
Rimbey	0.1	357	28,600	325
Rosebud	12.7	4	—	—
South Elkton	23.2	5	150	—
Sylvan Lake 1	3.0	53	2,090	10
Sylvan Lake 2	5.0	26	1,250	—
Three Hills 1	2.3	14	200	—
Three Hills 2	4.0	10	140	—
Willesden Green	1.9	8	500	—
Wilson Creek	21.2	10	200	—
Wimborne	1.0	43	2,750	300

(*) Under Construction or Enlargement

1971 Sales by Major Fields and Areas

	Oil (Bbls.)	Condensate (Bbls.)	L.P.G. (Bbls.)	Gas (Mcf)	Sulphur (L. Tons)	Gross Operating Revenue
Alberta						
Harmattan	1,338,735	1,017,432	622,651	1,148,766	44,546	$ 8,117,156
Crossfield Carstairs	31,122	370,466	256,453	22,284,199	105,302	5,570,607
Ferrier	328,036	312,169	431,242	9,279,494	–	3,892,602
Pembina	1,018,387	3,557	–	864,002	–	3,053,103
Innisfail	777,474	34,947	–	722,576	1,573	2,453,795
Kaybob	–	441,916	94,313	1,565,669	11,619	1,724,951
Clive	407,910	–	–	392,007	–	1,251,019
Swan Hills	260,777	–	–	–	–	776,955
Olds	210,060	16,011	16,026	898,465	–	758,339
Cherhill-Alexis	263,051	–	–	–	–	608,876
Joffre	198,859	–	–	–	–	549,331
Garrington	34,316	43,549	35,612	1,232,591	–	444,032
Zama	192,738	–	–	–	–	411,425
Gilby	33,008	25,584	20,710	1,281,792	–	398,382
Nevis	63,390	16,674	3,026	1,067,485	–	345,029
Lookout Butte	–	58,452	22,955	801,815	570	338,208
Minnehik Buck Lake	–	20,004	–	1,338,844	–	309,419
Other	582,008	63,670	37,356	5,393,020	147	2,620,071
	5,739,871	2,424,431	1,540,344	48,270,725	163,757	33,623,300
Saskatchewan						
Steelman	490,464	–	–	235,466	–	1,442,798
Weyburn	468,388	–	–	–	–	1,194,758
Midale	345,164	–	–	2,416	–	880,534
Other	157,176	–	–	400,511	–	478,750
	1,461,192	–	–	638,393	–	3,996,840
British Columbia						
Inga	502,629	–	–	769,702	–	1,462,538
Other	51,023	–	–	1,440,053	–	276,383
	553,652	–	–	2,209,755	–	1,738,921
Manitoba	123,819	–	–	–	–	326,533
CANADA	7,878,534	2,424,431	1,540,344	51,118,873	163,757	39,685,594
Foreign						
United Kingdom	–	7,482	–	1,841,419	–	557,068
TOTAL	7,878,534	2,431,913	1,540,344	52,960,292	163,757	$40,242,662

Harmattan-Elkton

As indicated in previous reports, a program designed to achieve the optimum recovery of oil and gas was undertaken during 1971, which will improve the company's oil revenue commencing in March, 1972. The construction of these compression, waterflood and battery consolidation facilities is essentially completed.

During the past ten years the Harmattan area plant has been enlarged several times to improve the recovery of condensate, propane and butane from the cycled gas. The dry gas is re-injected into the formation to maintain reservoir pressures. Construction, to be completed in late 1972, is now under way to provide facilities to sell a portion of the gas from the Harmattan-Elkton pool at an annual average rate of 40 million cubic feet per day. The sales gas plant is being built large enough to provide a peak shaving service which will allow greater volumes of gas to be sold during the winter months and also meet the ultimate expanded gas sales we expect within the next few years.

Waterflood facilities at Inga.

Harmattan East

An application has been made to the Alberta Energy Resources Conservation Board requesting approval to waterflood the oil zone and concurrently produce the gas cap. This program, if approved and implemented, will increase oil recovery and advance the realization of revenue from gas sales.

Lone Pine Creek South gas plant 40 miles north of Calgary, Alberta.

Joffre

During the year, construction commenced on a gas plant for processing and conserving oilfield gas from the Joffre D-2 Unit. The oil unit, in which your company owns an 8% interest, is operated under waterflood.

Inga

Sales of gas from the Inga Unit No. 3 in northeastern British Columbia commenced in April, 1971, following completion of the construction of field production facilities. The Inga No. 1 oil zone is responding satisfactorily to waterflooding and oil production improved substantially in the last eight months of the year.

Lone Pine Creek South

Construction of gas plant and field facilities for the production of Devonian (D-1) sour gas was completed late in the year and was placed on stream in December, with a raw gas capacity of 30 million cubic feet per day. Your company is the operator and has a 66⅔% interest in the plant. We estimate that our share of gas and condensate sales in 1972 will amount to approximately $1.1 million.

Meekwap

Development drilling in this field in central Alberta for delineation of the Devonian (D-2) oil pool is nearly complete. The operators are now studying the feasibility of improving oil recovery by waterflooding and the merits of unitized operations. Our interest is equivalent to three net wells with production of 7,300 barrels monthly.

Corbett

The Corbett Viking gas field in central Alberta was discovered in 1971. Your company has varying interests in six potential gas wells. Development drilling is continuing. Negotiations now under way, are expected to result in the unitization of this field and it is anticipated your company's share of production will be approximately 10%.

Ferrier

Canadian Superior has a 42½% interest in the Ferrier Unit No. 3, and the gas processing plant which went on stream approximately two years ago. Additional compressors were installed in the oil field during the year to handle the increased volumes of gas produced as a result of improved oil allowables. The oil zone is responding to waterflood pressure maintenance.

Industry and the Environment

As one of the major gas processing companies in Canada, your company is acutely aware of its responsibilities in the field of pollution control and has expanded its efforts toward reduction of environmental pollution resulting from industry operations. This concern is reflected in all of our planning as new areas are developed and modifications are made in established producing areas.

Foreign Development Activities

Gulf of Mexico

It was reported last year that the Company had acquired a 5% interest in Block 296, and a 5.6% interest in Block 306, in South Marsh Island and Eugene Island, offshore Louisiana. During 1971, five successful test wells have been drilled on these two diagonally adjoining blocks. The operator has recently announced a gas discovery on Block 306.

A twenty-four well development platform was fabricated and positioned on Block 296 and the first well for production is being completed. A second twenty-four well drilling platform and the accompanying production facilities is scheduled for installation in early summer. Twenty-five development wells are planned on this block during 1972 with production income estimated to start in the last quarter of this year. A twenty-four well development platform has been ordered for Block 306.

North Sea

The company's share of gas sales during 1971 from the United Kingdom sector of the North Sea, averaged 5 million cubic feet a day with gross revenues of $557,000. Production facilities are being expanded this year and it is estimated that revenues from our interest in the Hewitt and Lehman fields will increase approximately 40% in 1972.

Installation of 24-well drilling platform on block 296, offshore Louisiana, Gulf of Mexico.

Minerals Exploration Activities

Canada and the United States

During 1971, Canadian Superior Exploration Limited explored forty-four mining properties in Canada and the United States, conducted reconnaissance exploration in unstaked areas, and examined many other mining properties. Nine properties were tested with drill holes. Work was done in British Columbia, the Yukon, the Northwest Territories, Ontario, New Brunswick, Washington, Idaho, Montana and Texas. Optioned properties in Montana show potential for strataform copper deposits and will be drilled in 1972. A one-third equity is held in an interesting new discovery with extensive copper mineralization in the Yukon.

Geological offices are maintained in Vancouver, Kamloops, Smithers, Whitehorse and Spokane. Minerals exploration expenditures on behalf of Canadian Superior Oil Ltd. totalled $669,000 during 1971 and similar expenditures are planned for 1972.

Diamond drill platform on British Columbia mountainside.

Australasia

Through its Australian minerals subsidiary, the company is participating in an exploration program on the Western Australian Shield where 116,000 acres of leases are being evaluated for nickel, copper and uranium as well as general exploration for other prospects.

Diamond drilling for silver - lead - zinc is currently in progress on a prospecting license covering 12,000 acres in Tasmania.

In Arnhem Land, North Australia, your company has a 12½% working interest in 885 square miles of exploration licenses with further applications pending on 995 square miles. These lands are all in the vicinity of, and in some cases bordering, areas of recent discoveries of high grade uranium ore.

In early 1972 your company jointly staked claims in an area in Western Australia in which interesting uranium discoveries were recently made.

A 5% interest is held in a mining concession in Fiji that has a widespread indication of copper and zinc and is being tested with diamond drill holes.

Financial

Gross operating revenues in 1971 from the sale of petroleum products once again exceeded the totals for previous years to reach a high of $40.2 million. This was an increase of $3.7 million, or 10% over the previous year. Non-operating income including interest and dividend receipts increased 25% over 1970.

Net income amounted to $9,783,776 or $1.15 per share compared with 44¢ per share (including a non-recurring gain of 10¢ per share) in 1970.

Expenditures for plant and equipment totalled $10,670,000; more than double the $5 million spent in the prior year. Major expenditures were incurred in gas plant construction at Lone Pine Creek, Harmattan-Elkton and Harmattan East.

Working capital provided from operations (cash flow) before drilling and exploration expenditures amounted to $28,244,783, or $3.32 per share, compared with $2.69 per share in the previous year.

Geological and geophysical expenses increased from $4.8 million in 1970 to $5.1 million in 1971. Intangible drilling expenditures of $3.4 million were 40% below 1970 expenditures of $5.6 million. These reduced drilling expenditures reflect the general trend of exploration and development drilling in the oil industry in the Western Provinces.

The company is in a strong financial position with working capital of $15,761,000 at the year end.

Sulphur sales have not kept pace with production and a buildup of sulphur inventory in excess of current requirements has resulted. Management decided to carry in inventory only that portion related to estimated sales for the forthcoming year and to write off against income the costs applicable to the excess portion. This charge of $1,344,654 is shown in the Consolidated Statement of Income, as a sulphur inventory adjustment.

In 1958 the company began amortizing the previously accumulated net exploration and preproduction expenditures totalling $27.2 million which were capitalized at

Arnhem Land Aborigines with body decorations for corroboree held in Arnhem Land to commemorate signing of the agreement between McIntyre-Canadian Superior and Arnhem Land natives.

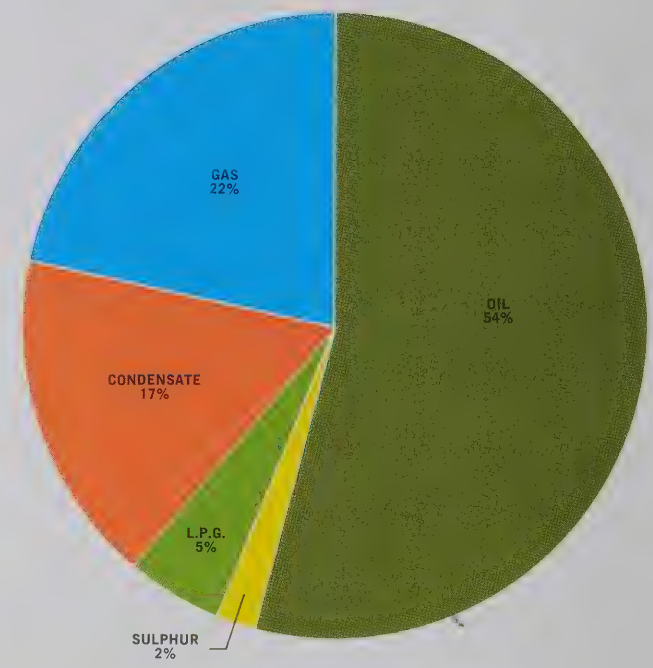
that time. Amortization charges to income have been made in each of the years since 1958 on a unit of production basis and the amount shown in the earnings statement of $3,530,827 in 1971 represents the final amortization charge against income.

In December, 1971, the company purchased an interest in production and related reserves of certain producing oil properties in Alberta for $12 million cash which amount has been reflected in the accounts as a deferred receivable. This amount has been claimed for tax purposes resulting in the elimination of current taxes otherwise payable in respect of the year 1971.

Over the past few years Canadian Superior has spent several million dollars in areas outside Canada, partly in land acquisition and exploration, and partly in development of producing properties. Canadian income tax legislation has not permitted these expenditures to be offset against Canadian income. With the introduction of the new tax reform legislation effective January 1, 1972, a taxpayer will be allowed to place foreign expenditures incurred after that date in a separate cost "pool" and deduct 10% of the amount remaining in such "pool" each year. Further clarification and interpretation of the new Canadian Income Tax Act is required, however, before the benefits of this concession to industry can be appropriately determined.

The following table indicates the trends of expenditures incurred in these areas.

GROSS OPERATING INCOME 1971



Foreign Expenditures

(Thousands of Dollars)

	1971	1970	1969
PETROLEUM			
United States	$ 452	$3,700*	$ 229
Indonesia	398	355	204
Malta	393	12	–
Tunisia	243*	–	–
United Kingdom	133	40	141
Australia	68	306	844
Netherlands	62	14	51
Italy	19	–	–
Turkey	11	37	–
Greenland	–	40	–
Thailand	–	15	–
	1,779	4,519	1,469
MINING			
Australia	244	355	111
New Zealand	–	36	114
United States	106	49	–
	350	440	225
	$2,129	$4,959	$1,694

**Includes lease acquisition costs of $3,481,000 in the United States and $242,000 in Tunisia.*

Major Accounting Policies

1. Intangible drilling costs applicable to both producing and abandoned wells and expenditures for geological and geophysical exploration are charged to income in the year that they are incurred.

2. Income taxes are charged to income if they are paid or payable (flow-through basis) applicable to the reporting year, with the exception of providing for income taxes deferred as a result of claiming capital cost allowance for income tax purposes in excess of depreciation recorded in the accounts.

3. Lease acquisition costs are capitalized when acquired and either transferred to producing properties when productive, or written off against income when surrendered or expired.

4. Depreciation is provided on the diminishing balance method at the following rates:

   Well and lease equipment 30%
   Gas plants and related facilities 10%

5. Foreign operations are primarily conducted through ten wholly-owned subsidiaries incorporated in the relevant countries and foreign currency balances are expressed in Canadian dollars for consolidation purposes.

1971 Financial Statements

Consolidated Statement of Income and Retained Earnings

For the years ended December 31, 1971 and 1970

	1971	1970
Income		
Gross operating income	$40,242,662	$36,547,265
Interest, dividends and other income	1,816,188	1,456,334
	42,058,850	38,003,599
Expenses		
Operating, administrative and general expenses	10,405,051	10,014,126
Sulphur inventory adjustment (Note 3)	1,344,654	–
Interest on long term debt	48,355	244,971
Rents of undeveloped properties	2,297,643	2,097,776
Exploration – geological and geophysical	5,051,583	4,829,144
Intangible drilling expenditures (Note 1)	3,360,999	5,568,344
Depreciation (Note 1)	4,664,442	5,078,582
Depletion (Note 1)	500,877	478,923
Amortization of exploration and preproduction expenditures (Note 1)	3,530,827	3,151,505
Leases abandoned	783,595	537,838
	31,988,026	32,001,209
Income Before Income Taxes	10,070,824	6,002,390
Provision for income taxes (Note 2)		
Current	(263,952)	2,769,787
Deferred	551,000	339,000
	287,048	3,108,787
Income Before Extraordinary Item	9,783,776	2,893,603
Gain on sale of securities	–	807,462
Net Income	9,783,776	3,701,065
Retained Earnings at Beginning of Year	55,841,424	52,140,359
Retained Earnings at End of Year	$65,625,200	$55,841,424

	Per Share	
Income before extraordinary item	$1.15	$ .34
Extraordinary item	–	.10
Net income	1.15	.44

Consolidated Statement of Changes in Financial Position

For the years ended December 31, 1971 and 1970

	1971	1970
Source of Working Capital		
Net income (before extraordinary item in 1970)	$ 9,783,776	$ 2,893,603
Add charges to income not requiring the use of working capital including depreciation, depletion, amortization, leases abandoned and deferred income taxes	10,048,425	9,585,848
	19,832,201	12,479,451
Add drilling and exploration expenditures	8,412,582	10,397,488
Working capital provided from operations before drilling and exploration expenditures	28,244,783	22,876,939
Proceeds from sale of securities	–	917,532
Capital stock issued for cash (Note 6)	68,068	–
Prepaid gas revenue	1,169,644	11,340,000
Refund of notes receivable	1,053,000	–
Miscellaneous	283,153	279,407
	30,818,648	35,413,878
Use of Working Capital		
Capital expenditures		
Lease acquisition	2,447,460	6,137,602
Plant and equipment	10,670,311	5,012,712
Exploration – geological and geophysical	5,051,583	4,829,144
Intangible drilling costs	3,360,999	5,568,344
Total capital, drilling and exploration expenditures	21,530,353	21,547,802
Investment in other companies	1,758,498	395,687
Deferred receivable, less current portion (Note 4)	8,000,000	–
Decrease in long term debt	1,400,000	2,800,000
Decrease in prepaid gas revenue	44,985	87,648
Miscellaneous	93,369	22,696
	32,827,205	24,853,833
Increase (decrease) in Working Capital	$ (2,008,557)	$ 10,560,045
Changes in Elements of Working Capital		
Increase (decrease) in current assets		
Cash	$ 12,330	$ (439,493)
Short term investments	(11,800,802)	12,148,200
Accounts receivable	4,136,281	2,494,801
Inventories	(526,983)	(1,026,059)
Current portion of deferred receivable	4,000,000	–
Net increase (decrease) in current assets	(4,179,174)	13,177,449
Increase (decrease) in current liabilities		
Accounts payable	(348,830)	3,223,617
Income taxes payable	(1,121,787)	93,787
Current portion of bank loan	(700,000)	(700,000)
Net increase (decrease) in current liabilities	(2,170,617)	2,617,404
Increase (decrease) in Working Capital	$ (2,008,557)	$ 10,560,045

CANADIAN SUPERIOR OIL LTD.

Consolidated Balance Sheet at December 31, 1971 and 1970

Assets

	1971	1970
Current Assets		
Cash	$ 773,221	$ 760,891
Short term investments, at cost	2,089,198	13,890,000
Accounts receivable	13,201,314	9,065,033
Inventories, at lower of cost or net realizable value		
Sulphur and liquid products (Note 3)	2,056,148	2,504,673
Materials and supplies	511,776	590,234
Current portion of deferred receivable	4,000,000	–
	22,631,657	26,810,831
Notes Receivable	–	1,053,000
Deferred Receivable, less current portion (Note 4)	8,000,000	–
Investments, at cost		
McIntyre Porcupine Mines Limited (quoted market value 1971 $6,417,000; 1970 $12,744,875)	9,005,499	9,005,499
Falconbridge Nickel Mines Limited (quoted market value 1971 $1,618,500)	1,729,290	–
Other investments	1,753,937	1,852,249
	12,488,726	10,857,748
Properties, Plant and Equipment, at cost		
Undeveloped properties	34,072,306	32,879,300
Producing properties	15,869,269	15,399,445
Production equipment	30,442,636	29,331,176
Gas plants and related facilities	45,878,576	36,773,473
Other property and equipment	2,243,535	2,210,477
	128,506,322	116,593,871
Less: Accumulated depreciation and depletion (Note 1)	44,954,335	40,037,425
	83,551,987	76,556,446
Unamortized balance of exploration and preproduction expenditures (Note 1)	–	3,530,827
	83,551,987	80,087,273
Deferred Charges		
Prepaid lease rentals	1,004,181	985,121
Other	476,886	402,577
	1,481,067	1,387,698
	$128,153,437	$120,196,550

Liabilities

	1971	1970
Current Liabilities		
Accounts payable	$ 6,870,164	$ 7,218,994
Income taxes payable	–	1,121,787
Current portion of bank loan	–	700,000
	6,870,164	9,040,781
Bank Loan, less current portion	–	1,400,000
Prepaid Gas Revenue	12,902,012	11,777,352
Deferred Income Taxes (Note 2)	4,528,000	3,977,000
Shareholders' Equity		
Capital stock of $1 par value (Note 6) Authorized – 10,000,000 shares Issued and outstanding – 8,503,896 shares (1970 – 8,501,516)	8,503,896	8,501,516
Capital in excess of par value	29,724,165	29,658,477
Retained earnings, per accompanying statement	65,625,200	55,841,424
	103,853,261	94,001,417
Contingent Liabilities (Note 5)		
	$128,153,437	$120,196,550

Approved on behalf of the Board

A. E. Feltmeyer Director

J. W. Pyle Director

Notes to Financial Statements

1. Accounting Policies

Exploration expenditures and intangible drilling expenditures applicable to both producing wells and dry holes are charged to income as incurred.

Depreciation is provided by the diminishing balance method at the following rates:

Production equipment (including casing)	30%
Gas plants and related facilities	10%

Depletion of producing properties is being provided for by the unit of production method based on estimated recoverable reserves of oil and gas. The accumulated depletion as at December 31, 1971 amounted to $3,447,201 (1970 - $2,947,359).

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities - at the rate of exchange December 31, 1971

Other assets and liabilities - at historical rates of exchange

Income and expenses - at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

Amortization of exploration and preproduction expenditures incurred to August 31, 1958 has been provided for by the unit of production method based on estimated recoverable reserves of oil and gas as at that date. As at December 31, 1971 the capitalized amount has been fully amortized.

2. Income Tax

For income tax purposes the company has claimed lease acquisition costs and capital cost allowances (depreciation) in excess of the amounts charged in the accounts. As a result income taxes otherwise payable for the year have been reduced.

The Canadian Institute of Chartered Accountants has recommended the income tax allocation method of accounting, whereby the income tax provision is based on the income reported in the accounts. Management, however, does not consider it appropriate to apply this method to differences in the timing of deductions for tax and accounting purposes with respect to drilling, exploration and lease acquisition costs; this view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada. If the tax allocation basis had been followed for timing differences involving such costs, the deferred tax provision would have been increased by $3,700,000 for 1971 (decreased by $200,000 for 1970) and increased $18,100,000 on a cumulative basis to December 31, 1971.

3. Sulphur Inventory

Due to the deterioration of world sulphur markets and the continued build up of sulphur inventories, the company has valued, at cost, only that portion of such inventory which is estimated to be saleable within one year. The resulting adjustment has been reflected in the consolidated statement of income and retained earnings as "Sulphur inventory adjustment".

4. Deferred Receivable

In December, 1971 the company purchased the right, title and interest to the production and related reserves of certain producing oil properties for $12,000,000 cash, which amount, together with an agreed rate of interest, is recoverable from the net proceeds of production from these properties. Based on current production, it is estimated that the company will recover its cost plus interest within three years, at which time title to the properties will revert to the original owner.

5. Commitments and Contingent Liabilities

The company has a lease on office premises which expires in 1990 (with an option to renew). Under the terms of the lease the company is required to pay an annual net rental of $577,000.

The company might be required under certain conditions to make payments under guarantee and other contractual arrangements principally in connection with:

(a) pipe line transportation, and

(b) the issuing to and depositing with the federal and provincial governments of non-interest bearing demand promissory notes to be held as work performance deposits in respect of exploratory rights.

The contingent liability under such arrangements does not exceed $6,000,000.

6. Stock Options

Under the company's stock option plan, options have been granted to certain officers and key employees of the company and its subsidiaries at prices of $31.20 and $28.60 which prices were not lower than 90% of the market value on date of grant. The options are exercisable from time to time on a cumulative basis and expire in 1979.

During 1971 options on 2,380 common shares were exercised for a cash consideration of $68,068. The excess of the issue price over the par value of shares issued has been credited to capital in excess of par value. As at December 31, 1971 options for 80,120 shares (of which 51,250 were optioned to directors and officers) were outstanding and 67,500 shares were available for future grants.

7. Statutory Information

During 1971 there were eleven directors and eight officers (as defined by the Canada Corporations Act) of whom seven were also directors.

Officers' remuneration and directors' fees for 1971 amounted to $386,701 and $1,000 respectively (1970 - $367,517 and $1,000), none of which were paid by subsidiary companies.

Auditors' Report

To the Shareholders of
CANADIAN SUPERIOR OIL LTD.

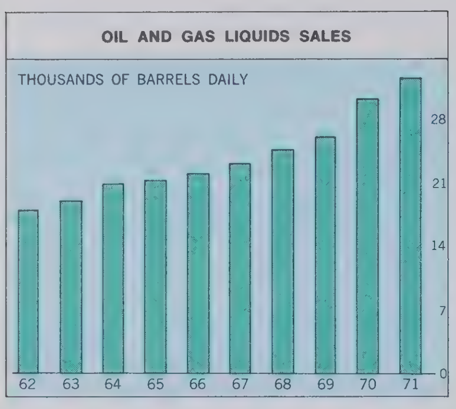
We have examined the consolidated balance sheet of Canadian Superior Oil Ltd. and its subsidiaries as at December 31, 1971 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

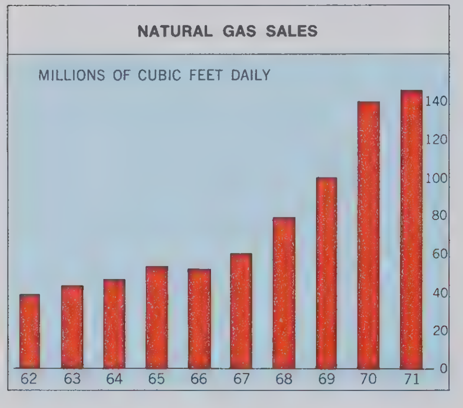
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

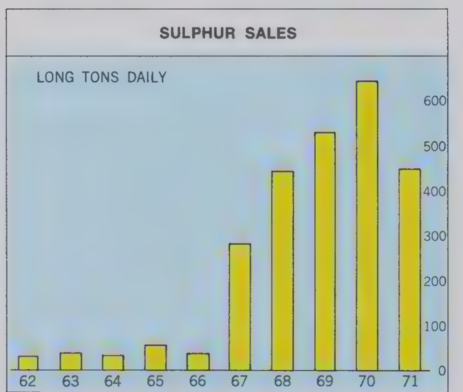
CALGARY, Alberta.
February 11, 1972

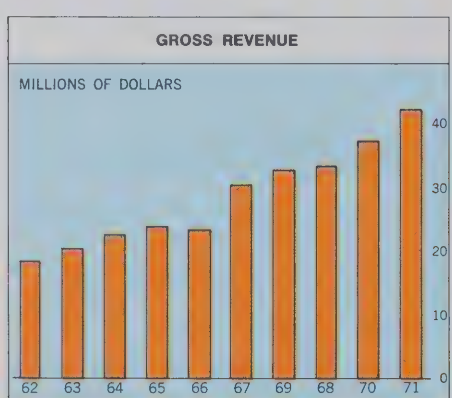
PRICE WATERHOUSE & CO.
Chartered Accountants

CANADIAN SUPERIOR OIL LTD.





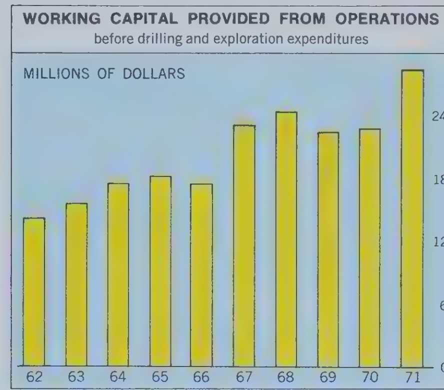


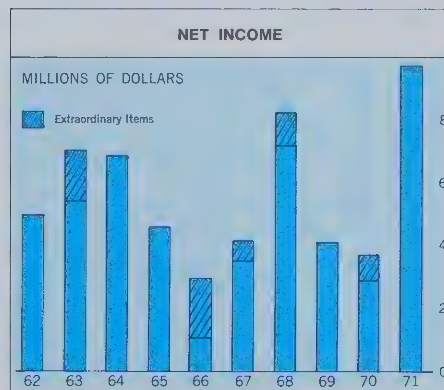


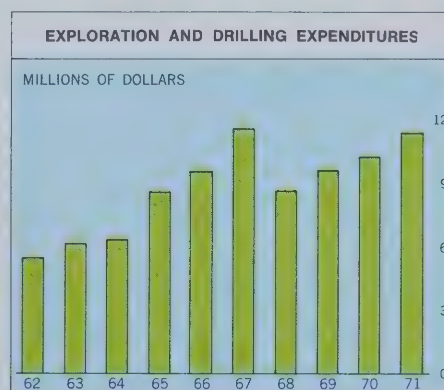
Ten Year Summary

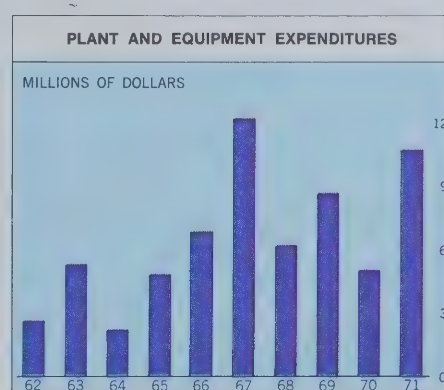
	1971	1970	1969	1968
Gross Revenue	$42,058,850	38,003,599	33,711,153	33,143,8
Working Capital provided from operations – *before drilling and exploration expenditures*	$28,244,783	22,876,939	22,577,054	24,688,8
Per Share	$3.32	2.69	2.66	2.90
Income before extraordinary items	$ 9,783,776	2,893,603	4,070,744	7,384,8
Per Share	$1.15	.34	.48	.87
Extraordinary items	–	807,462	–	1,117,9
Per Share	–	.10	–	.13
Net Income	$ 9,783,776	3,701,065	4,070,744	8,502,7
Per Share	$1.15	.44	.48	1.00
Working Capital at Year-End	$15,761,493	17,770,050	7,210,005	8,277,4
EXPENDITURES:				
Oil and Gas Properties	$ 2,447,460	6,137,602	4,526,022	6,849,7
Plant and Equipment	10,670,311	5,012,712	8,780,906	6,091,5
Intangible Drilling	3,360,999	5,568,344	4,668,532	4,835,2
Exploration – Geological and Geophysical	5,051,583	4,829,144	5,129,074	4,026,4
	$21,530,353	21,547,802	23,104,534	21,802,9
NET ACREAGE IN CANADA	10,285,779	9,898,492	9,198,557	8,643,1
NET WELLS COMPLETED:				
Oil	4.3	12.7	10.7	16.9
Gas	3.5	8.7	7.6	6.0
Dry	17.3	19.3	14.9	17.5
	25.1	40.7	33.2	40.4
AVERAGE NET DAILY SALES:				
Crude Oil (Bbls.)	21,585	20,384	18,612	17,88
Condensate (Bbls.)	6,663	6,525	5,006	4,33
Propane and Butane (Bbls.)	4,220	3,847	2,771	2,70
Total Oil and Gas Liquids	32,468	30,756	26,389	24,91
Residue Gas (Mcf.)	145,097	139,033	99,797	78,10
Sulphur (Long Tons)	449	651	534	44

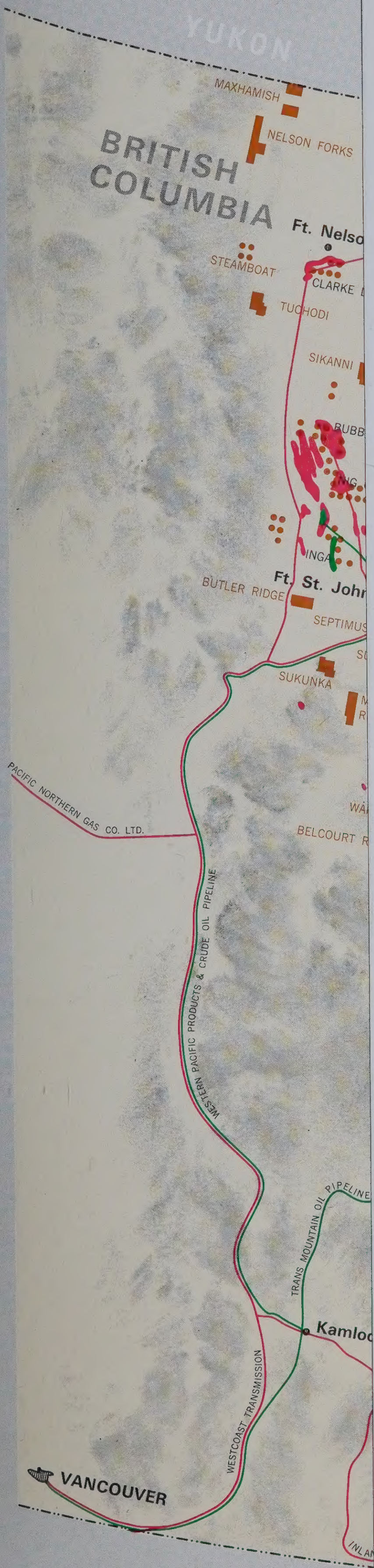
1967	1966	1965	1964	1963	1962
30,875,617	24,297,814	24,395,528	23,096,911	20,841,241	19,087,459
23,259,070	17,778,607	18,297,187	17,623,639	15,521,751	14,411,428
2.74	2.09	2.15	2.07	1.83	1.70
3,726,254	1,088,245	4,715,474	6,891,254	5,506,734	5,021,282
.44	.13	.55	.81	.65	.59
619,500	2,000,000	–	–	1,705,483	–
.07	.23	–	–	.20	–
4,345,754	3,088,245	4,715,474	6,891,254	7,212,217	5,021,282
.51	.36	.55	.81	.85	.59
4,284,232	9,287,969	11,537,797	17,091,450	13,403,972	8,331,773
3,144,335	2,843,914	10,403,097	5,419,213	4,222,249	4,350,909
12,042,987	6,813,818	4,802,032	2,142,120	5,253,134	2,523,842
7,607,575	6,224,491	5,418,643	2,709,101	3,050,118	3,542,613
4,100,251	3,425,670	3,301,719	3,479,768	3,084,135	1,913,028
26,895,148	19,307,893	23,925,491	13,750,202	15,609,636	12,330,392
6,339,987	7,044,794	7,345,277	7,346,842	6,756,625	6,706,958
42.8	25.7	30.7	15.4	13.0	16.7
9.9	8.8	7.4	5.6	6.7	10.5
8.2	18.5	23.1	16.7	24.6	21.9
60.9	53.0	61.2	37.7	44.3	49.1
17,758	16,269	16,087	17,054	16,939	16,399
4,182	4,360	4,556	3,608	2,233	1,643
1,684	1,572	694	366	6	5
23,624	22,201	21,337	21,028	19,178	18,047
59,390	51,686	52,403	45,325	40,994	38,105
284	37	58	36	38	32











Map showing

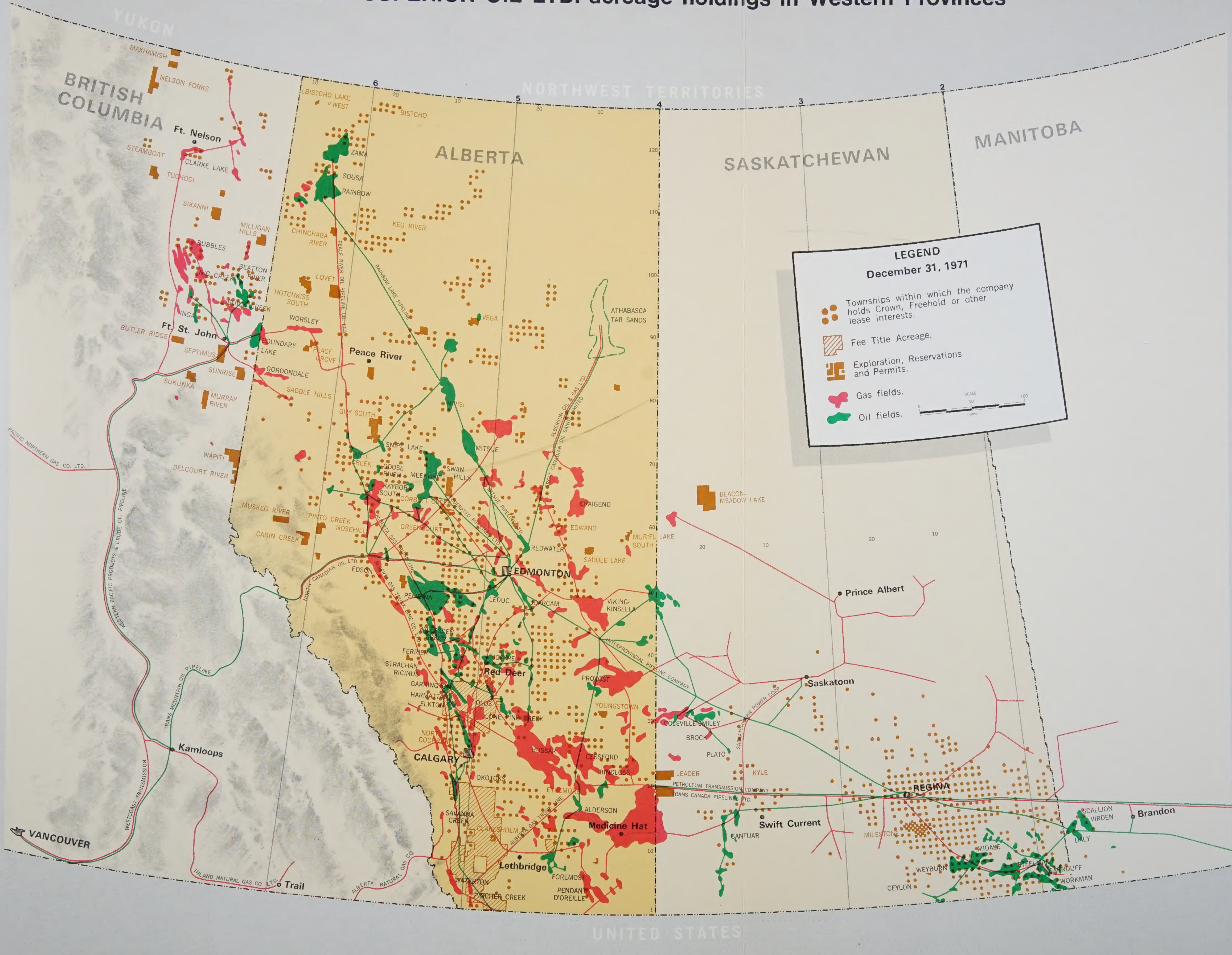
acreage holdings

of

CANADIAN SUPERIOR OIL LTD.

1971

CANADIAN SUPERIOR OIL LTD. acreage holdings in Western Provinces



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